



State Investment Commission
Monthly Meeting Minutes
Wednesday, April 26, 2017
9:00 a.m.
Room 205, State House

The Monthly Meeting of the State Investment Commission (SIC) was called to order at 9:03, Wednesday, April 26th, 2017 in Room 205, State House.

I. Roll Call of Members

The following members were present: Mr. Michael Costello, Mr. Frank Karpinski, Ms. Marie Langlois, Ms. Sylvia Maxfield, Ms. Paula McNamara, Mr. Thomas Mullaney, Ms. Marcia Reback, and Treasurer Seth Magaziner.

The following members were absent: Mr. Robert Benson and Mr. Thomas Fay

Mr. Costello left at 11:35 a.m.
Ms. Maxfield left at 11:36 a.m.

Also in attendance: Mr. John Burns and Mr. John Linder, Pension Consulting Alliance (PCA), general consultants; Mr. Grant Jaffarian and Ms. Lisa Martin, Crabel Capital Management; Mr. Ben Albrandi and Mr. Yung-Shin Kung, Credit Suisse; Dr. Patrick Welton and Mr. Neal Howe, Welton; Mr. Darren Wolf, Aberdeen Asset Management; Ms. Kimberly Shockley, Associate Director of College and Retirement Savings Plan; Mr. Frank Picarelli, Segal Marco Advisors; Ms. Kerri Baker, Treasury Cash Manager; Mr. Darren Wolf, Aberdeen Asset Management; Mr. Tim Nguyen, Treasury Chief Investment Officer (interim); Ms. Sally Dowling, Adler, Pollock & Sheehan, legal counsel; and other members of the Treasurer's staff.

Treasurer Magaziner called the meeting to order at 9:03 a.m.

II. Approval of Minutes

On a motion by Ms. Reback and seconded by Mr. Mullaney, it was unanimously **VOTED: to approve the draft minutes of the March 22nd, 2017 meeting of the State Investment Commission.**

III. Systematic Trend Following Manager Presentations

Three Systematic Trend Following (STF) Managers presented: Crabel, Credit Suisse and Welton.

Ms. Martin provided historical background on Crabel, stating that Crabel has been running Systematic Trend Following (STF) strategies since 2004. Mr. Jaffarian explained their specific strategy in more detail, noting it is designed to respond well under stress. As an asset class, it tends to be uncorrelated, meaning it will move differently, not contrary, to stressors and will provide diversification in both markets and time frames.

The board asked questions.

Mr. Albrandi provided background on Credit Suisse. Mr. Kung went on to explain that their strategy is derived from their index and benchmarking business with an eye toward liquidity, transparency, low cost and reliability. He denoted the difference in their strategy was to minimize tracking error between their approach and the overall STF industry instead of the traditional approach of maximizing expected returns, which they assert is a more intuitive solution.

The board asked questions.

Mr. Howe stated that Dr. Welton established the Welton strategy in the 1980's and was one of the first of its kind. He explained that their product uses three different analytical designs to find trends. They allocate an equal amount of risk to each of the three to keep their algorithm diversified.

The board asked questions.

IV. Systematic Trend Following Manager Recommendations

Mr. Linder recalled the Board had approved the Crisis Protection Class (CPC) structure of 50% Systematic Trend Following and 50% Long-duration Treasuries, whose purpose is to protect against a market downturn. He outlined the manager due diligence process and Request for Information (RFI) evaluation that yielded the recommended managers – Crabel, Credit Suisse and Welton. He provided an expected implementation timeline if managers are approved at this meeting, with the entire CPC expected to be funded in June 2017.

Mr. Wolf provided additional context in regards to how the STF products are expected to operate within the CPC structure.

Mr. Costello asked if it necessary to have 3 managers in this area. Mr. Linder explained that it was for diversification purposes and that the mix of the three would produce a stronger outcome than any one of them could alone.

The board asked questions.

On a motion by Mr. Mullaney and seconded by Ms. Reback it was

VOTED: to approve Crabel as a Systematic Trend Following Manager, subject to legal review

On a motion by Ms. McNamara and seconded by Ms. Langlois it was

VOTED: to approve Credit Suisse as a Systematic Trend Following Manager, subject to legal review

On a motion by Ms. Langlois and seconded by Ms. Maxfield it was

VOTED: to approve Welton as a Systematic Trend Following Manager, subject to legal review

V. Defined Contribution and Deferred Compensation Vendor Selection

Ms. Shockley introduced Mr. Picarelli from Segal Marco Advisors, who facilitated the vendor selection for the defined contribution, 401(a), and deferred compensation, 457 (b), plans. He apprised the Board on the

RFP process and the companies who responded to the requests. After an evaluation of the qualified respondents, the selection committee along with Segal recommended TIAA to serve as the defined contribution and FICA vendor, and summarized the reasons behind their selection.

The board asked questions.

On a motion by Mr. Costello and seconded by Ms. Reback, it was
VOTED: to approve TIAA as the 401(a) provider, subject to contract negotiations
Ms. Sylvia Maxfield recused herself

Mr. Picarelli then spoke about the deferred compensation vendor selection, noting the state mandates three providers of the 457 plans. After an evaluation of the qualified respondents, the selection committee along with Segal recommended Fidelity, TIAA and Voya to serve as the state's three deferred compensation vendors, and summarized the reasons behind their selections.

The board asked questions.

On a motion by Ms. Reback and seconded by Mr. Costello it was
VOTED: to approve TIAA as a 457(b) provider, subject to contract negotiations
Ms. Sylvia Maxfield recused herself

On a motion by Ms. McNamara and seconded by Mr. Mullaney it was
VOTED: to approve Fidelity as a 457(b) provider, subject to contract negotiations
Ms. Sylvia Maxfield recused herself

On a motion by Mr. Costello and seconded by Ms. Langlois it was
VOTED: to approve Voya as a 457(b) provider, subject to contract negotiations

VI. Community Deposit Program Recommendations

Ms. Baker refreshed the Board on the Community Deposit Program explaining it is a bank local program that provides loans to small businesses in Rhode Island. The program has steadily increased in both loans and participating lenders since the SIC approved the program in December 2016. Staff continues outreach to banks to further increase that participation.

Ms. Baker brought forth three banks: Bristol County Savings Bank, Centreville Bank and Home Loan Investment Bank. She summarized the banks characteristics that would make them eligible for short-term vendor selection and serve in the community deposit program.

The Board asked questions.

On a motion by Ms. Langlois and seconded by Mr. Mullaney it was
VOTED: to approve Bristol County Savings Bank as a short-term investment manager

On a motion by Ms. McNamara and seconded by Ms. Langlois it was
VOTED: to approve Centreville Bank as a short-term investment manager

On a motion by Ms. Langlois and seconded by Ms. McNamara it was

VOTED: to approve Home Loan Investment Bank as a short-term investment manager

VII. Legal Counsel Report

There was no legal counsel report.

VIII. Chief Investment Officer Report

Mr. Nguyen provided the performance update for March. He explained the portfolio value increased approximately \$33 million or 0.75%. The month's increase comes from \$59.3 million of positive investment performance offset by \$26.3 million of transfers to meet pension payroll. Calendar year to date, the total portfolio has increased by \$220.8 million or 4.01%. Fiscal year to date, the portfolio's 8.76% return exceeded the 8.31% benchmark and well surpassed the 7.43% 60/40 return.

IX. Treasurer's General Comments

Treasurer Magaziner introduced Mr. Alec Stais, who will officially join Treasury on May 1st as Chief Investment Officer (CIO). He thanked Mr. Nguyen for his service as interim CIO, noting it had been an eventful and positive period for the office and its portfolio. In addition to Mr. Nguyen's departure, Treasurer Magaziner announced it was Ms. McNamara's last day serving on the board. He thanked Ms. McNamara for her six years on the SIC. He noted the seat occupied by Ms. McNamara is a governor appointed seat and a candidate will likely be brought before the Senate for confirmation soon, hopefully joining the Board for its next meeting.

There being no other business to come before the Board, on a motion by Ms. Reback and seconded by Ms. Langlois, the meeting adjourned at 11:49 a.m.

Respectfully submitted,

**Seth Magaziner,
General Treasurer**